

Section 10. Federal Tax Deposit System

1 General

IRM 35(17)0, Federal Tax Deposit System, 3(41)(268)0, FTD processing on SCRIPS and IRM (20)400 FTD Penalties.

Under the Federal Tax Deposit System, a taxpayer is not permitted to make direct payments to the Internal Revenue Service. Instead, a deposit is made to an authorized depository bank that has a Treasury Tax and Loan (TT&L) Account with the Federal Reserve Bank or, in the case of a taxpayer required to deposit by EFT, to the government financial agent.

Federal Tax Deposit coupons, Form 8109, are available from the IRS in a coupon booklet format. Deposits may also be made via magnetic tape. However, once a taxpayer is required to deposit electronically, all taxes must be deposited electronically. The taxpayer cannot use either coupons or mag tape as a backup to their electronic deposit system. Taxpayers would be subject to a failure to deposit (FTD) penalty for having deposited in an incorrect method (EFT/FTD Penalty). This is the same penalty received by taxpayers for not making a coupon deposit through an authorized depository (FTD avoidance penalty).

ADEPT was the Service's first EFT program. It was piloted from 1989 to 1991 in the Andover Service Center.

TAXLINK began accepting nationwide federal tax deposits electronically in 1992 through Atlanta Service Center. These deposits were not processed through the FTD system. Instead TAXLINK deposits went through GMF. Transaction and document codes were the same as though processed through the FTD system. These deposits are identified by their file location code (FLC 65). Taxpayers enrolled in TAXLINK will be rolled into EFTPS. Electronic deposits made after November 3, 1996 must be made through EFTPS.

EFTPS - Electronic Federal Tax Payment System (EFTPS), is the government's current system for accepting federal tax payments electronically. EFTPS is not limited to accepting only FTD deposits but can accept all tax payments. EFTPS was certified for operation October 18, 1996 at the Tennessee Computing Center.

A paper Federal Tax Deposit Form was introduced into the system effective January 1, 1984. This form replaced the 80 column FTD punched card forms previously used. When making a magnetic deposit or electronic funds transfer no paper is involved. The money still moves separately from the deposit information. (i.e., the information that was recorded on the paper coupon now comes to the IRS through FMS, via magnetic tape or electronically.)

Microfilm Serial Number

The first two digits of the Microfilm Serial Number (MSN) identify the service center which processed the FTD (for Forms 8109 or 8109-B (paper forms).

The third and fourth digits represent the OCR/SCRIPS cycle in which the FTD coupon was scanned (01-53 represent Paper forms, such as Form 8109 and Forms 8109-B, 54-69 represent magnetic tape, 60-65 with first two digits of 65 represent TAXLINK.) Digits in this field greater than 53 represent Agent Codes of reporting agents who submitted the FTDs on magnetic tape.

The remaining six digits (OCR) or eight digits (SCRIPS) are a sequential serial number assigned during the scanning operations or mainline operations. The Service expects to see a marked decrease in the number of paper of magnetically transmitted deposits. Deposits processed through the purpose (to tag individual deposits or payments for future research) remains the same.

2 *SCCF, BOBs, Error Register, Classification, and Reversals of FTDs*

Effective January 3, 1995, the following FTD processes are performed in the Accounting Function of Austin, Cincinnati, Kansas City, and Ogden Service Centers only, due to the Service Center Workload Redistribution of FTDs. IMPORTANT NOTE: FTD coupons with a deposit date of December 31, 1994 and prior will continue to be processed at all service centers until June 30, 1995. At that time, the activities in Section .02 will only be performed at the four service centers previously stated.

- (1) **Service Center Control File (SCCF)** — The primary purpose of the SCCF is to balance and control all transmittals (FRB and IRS) processed by the FTD Mainline System. Each module established on the SCCF is divided into four sections:
 - (a) Transmittal Section
 - (b) Indicator Section
 - (c) Balance Section
 - (d) Transaction Section

Without approval of the SCCF, no FTD will be released to the TEP and to the master file. Transmittals that are rejected or deleted at TEP are corrected on the SCCF Invalid Posting Transcript. Transmittals that have cleared the SCCF are processed on the SCCF Historic and the Block Completion List during month end processing.

- (2) **Blocks out of Balance (BOBs)** — FTDs are balanced to ensure that individual FTD amounts agree with the transmittal (AOC) amount. Blocks that are out of balance appear on the FTD BOB Register for corrections, adjustments and/or re-inputs. Corrections and adjustments are sent to DIS for input. Re-inputs are sent to OCR for re-scanning, re-serializing and re-filing. Blocks that are on the FTD BOB Register are neither reported on the classified reports or TEP, however, they are controlled on the FTD SCCF.
- (3) **FTD Error Register** — Validations are performed on name controls, EINs, tax classes, tax periods, and payment dates. The name controls, EINs, and filing requirements are checked against the FTD Data Base and the NAP. Discrepancies or mis-matches are reported on the FTD Error Register for corrections. Records appearing on the FTD Error Register are classified and are sent to good tape after corrective actions are processed by DIS.
- (4) **Classification** — FTDs are classified into tax classes as they are released from OCR. They are also balanced with the Federal Reserve Banks (FRB) verification records. Blocks that are not in balance with the FRB require adjustments to the Treasury Tax & Loan (TT&L) Account. The account is maintained at authorized TT&L depositories. The classification of tax classes is reported on the FTD Daily Wire by FRB batch dates. The tax classes amount are reported to the Treasury and used for the different trust funds.
- (5) **Reversals** — Authorized TT&L depositories submit reversal requests to their FRBs to process reversals for incorrect amounts and dishonored checks. The request is forwarded to the service center to adjust the taxpayer's account and the TT&L account. Requests

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that result in overpayment of taxes and payment made in error by taxpayers are not accomplished through this process.

3 **FTD Deposit Requirements and Penalties**

- (1) Because of the increasing complexity of this program and the many dates and amounts involved, IRM (20)400 Failure to Deposit (FTD), should be referenced for details.

Deposit Requirements			
Form	Undeposited Tax	Period	Deposit Required
941*	\$499.99 or less	End of first or second month	Not required but must be added to next month's liability.
		End of third month	Not required. Either pay with return or make deposit by RDD.
	\$500.00 - \$2,999.99	End of any month	By the 15th day of the following month, unless a 3-banking-day deposit was required during that month. Refer to IRM (20)400, Federal Tax Penalties.
	\$3,000.00 - \$99,999.99	End of any eighth-monthly period	Within 3 banking days after the close of the eighth-monthly period. NOTE: Safe Haven (95% Rule) provisions apply. Refer to IRM (20)400, Federal Tax Penalties.
*For periods prior to 9303. ** For periods prior to 9312.			
943**	\$100,000.00 or more	On any day on or after Aug. 1, 1990	Within 1 banking day after the specific date. NOTE: Safe Haven (95% Rule) provisions apply. Refer to IRM (20)400, Federal Tax Penalties.
	\$499.99 or less	End of first or second month	Not required but must be added to next month's liability.
		End of third month	Not required. Either pay with return or make deposit by RDD.
	\$500.00 - \$2,999.99	End of any month	By the 15th day of the following month, unless a 3-banking-day deposit was required during that month. Refer to IRM (20)400, Federal Tax Penalties.
	\$3,000.00 - \$99,999.99	End of any eighth-monthly period	Within 3 banking days after the close of the eighth-monthly period. NOTE: Safe Haven (95% Rule) provisions apply. Refer to IRM (20)400, Federal Tax Penalties.

Deposit Requirements			
Form	Undeposited Tax	Period	Deposit Required
940	\$100,000.00 or more	On any day on or after Aug. 1, 1990	Within 1 banking day after the specific date. NOTE: Safe Haven (95% Rule) provisions apply. Refer to IRM (20)400, Federal Tax Penalties.
	\$100.00 or less	End of first, second or third quarter	Not required but must be added to next quarter's liability.
		End of last quarter	Not required. Either pay with return or make deposit by RDD.
	\$100.01 or more	End of any quarter	By the last day of the following month.
CT-1*(RR Tax)	\$499.99 or less	End of any month other than December	Not required, but must be added to next month's liability.
		End of December	By RDD.
	\$500.00 - \$2,999.99	End of any month	By the 15th day of the following month, unless a 3-banking-day deposit was required. Refer to IRM (20)400, Federal Tax Deposit Penalties.
		End of any eighth-monthly period	Within 3 banking days after the close of the eighth-monthly period. NOTE: Safe Haven (95% Rule) provisions apply. Refer to IRM (20)400, Federal Tax Deposit Penalties.
	\$100,000.00 or more	On any day on or after Aug. 1, 1990	Within 1 banking day after the specific date. NOTE: Safe Haven (95% Rule) provisions apply. Refer to IRM (20)400, Federal Tax Deposit Penalties.
CT-1* (Railroad Unempl. Repayment Tax)	\$100.00 or less	End of first, second or third quarter	Not required but must be added to next quarter's liability.
		End of last quarter	Not required. Either pay with return or make deposit by RDD.
	\$100.01 or more	End of any quarter	By the last day of the following month.
1042	\$199.99 or less	End of any month other than December	Not required, but must be added to next month's liability.
		End of December	Not required. Either pay with return or make deposit by RDD.
	\$200.00 - \$1,999.99	End of any month	By the 15th day of the following month, unless a 3-banking-day deposit was required during that month. Refer to IRM (20)400, Federal Tax Deposit Penalties.

Deposit Requirements

Form	Undeposited Tax	Period	Deposit Required
	\$2,000.00 or more	End of any quarter-monthly period	Within 3 banking days after the close of the quarter-monthly period. NOTE: Safe Haven (90% Rule) provisions apply. Refer to IRM (20)400, Federal Tax Deposit Penalties.

*For periods prior to 199303. See for 199303 and subsequent quarters.

**For periods prior to 9312

Otherwise follow Form 941 requirements

Monthly Deposit Requirements

Form	Undeposited Tax	Period	Deposit Required
720	\$100 or less	By end of 1st or 2nd month	On or before last day of the next month when cumulative tax exceeds \$100.
720	\$100 or less	By end of quarter	Not required. Taxpayer may either pay with return or make deposit.
720	More than \$100	Any month in quarter	On or before last day of the next month of quarter.
720 (Air Trans & Communications)	More than \$100	Any month in quarter.	On or before last day of the next month of quarter.

If semimonthly deposits for quarters 199012 and prior, refer to IRM (20)400, Federal Tax Deposit Penalties.

If the TOTAL liability during the lookback period is . . .	And . . .	Then a deposit must be made:	However, if the total accumulated liability during either deposit period exceeds \$100,000, the deposit must made:
\$50,000 or less		On or before the 15th of the following month	the next day
More than \$50,000	Payment date is: >Saturday >Sunday >Monday >Tuesday	On or before the following >Friday	the next day
	Payment date is: >Wednesday >Thursday >Friday	On or before the following >Wednesday	the next day

Term	Definition or example	
Lookback Period - a period of historical return filing(s) used to determine which deposit schedule a taxpayer must follow when making current year payroll tax deposits	for quarterly returns:	for annual returns:
	the total original employment tax liabilities from tax periods between July 1 and June 30	the total original employment tax liability from the second previous tax return period.

Deposit Schedule - The schedule an employer follows to determine
(a) the length of the deposit period over which liabilities are accumulated and
(b) when the deposit is due.
Since 1-1-1993, the deposit schedules have been called either Monthly or Semi-weekly.

Accumulated Liability - the sum of tax liabilities from each individual payroll(s) within a deposit period. The amount that must be deposited. (Deposit Liability)

Deposit Period	for taxpayers following a monthly deposit schedule, the deposit period covers:	for taxpayers following a semi-weekly deposit sched- ule, the deposit period is either:
	a calendar month	Sat.,Sun.,Mon. & Tues. *****OR***** Wed.,Thur. and Friday

Banking Day - Deposits are due only on banking days. Banking days are days other than Satur-
day, Sunday, Federal holidays or state banking holidays. See IRM 3(25)(78) for the chart of bank
holidays recognized by Master File and IDRS.

Safe Harbor - Use of the safe harbor rules has been expanded to all depositors. An employer is
required to deposit 100% of the deposit liability on or before the deposit due date. Regulations pro-
vide a safe harbor, (safety net option) if the employer cannot deposit the full amount required. An
employer will still be considered to have met their deposit obligation if the underpayment/shortfall
(the difference between the required deposit liability amount and the actual amount of the deposit)
is less than the greater of \$100 or 2% of the required deposit. The shortfall is treated as a new,
unique, separate liability, arising from its own separate deposit period and carrying its own deposit
due date. The shortfall due date is determined by the deposit schedule followed.

Transition Rule - The modification of the FTD Penalty program in effect 1-1-1993 through 12-31-
1993 to ease employers transition to the new 1993 deposit rules. See IRM (20)400 for details.

DeMinimus Rule - Employers handling payroll taxes are required to deposit those monies. Failure
to use the Federal Tax Deposit System or to deposit in the correct manner will subject the employer
to a FTD penalty equal to 10% of the amount incorrectly submitted. However, if the total return lia-
bility is less than \$500, the employer is relieved of the burden of making small deposits and may
submit a check (to the IRS) for the full amount of the tax liability with their return without incurring a
FTD (failure to deposit in the correct manner) penalty.

Term	Definition or example
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Application of Payments (FIFO) -

Credits are ordered by the date received. Multiple credits of the same transaction code received the same date are combined into one credit amount. Valid credits include TC 610, 650, 670, 700, 760, 710 and 716.

Liabilities are ordered by the due dates. Multiple liabilities arising from the same deposit period are combined into one liability. Multiple liabilities, from various deposit periods, with the same due date are further ordered by their incurred date.

--Credits are applied in date made order against deposit liabilities in due date order. Apply oldest deposits to the oldest unpaid or unsatisfied liability. A liability is considered satisfied when either 100% of the liability has been received or an acceptable safe harbor payment is received.

4 Computer Codes

(1) Penalty Computation Codes (PCC)

- (a) Computation codes are used to show why Masterfile computed a penalty on the account. These codes also indicate what penalty explanation text is printed on balance due notices.
- (b) The following codes are associated with the FTD Penalty. The PCC is displayed with the literal "FTD PEN" below the TC 186. The FTD penalty PCCs are written so that only one PCC is needed to describe the reason(s) why the FTD penalty was assessed. See section 8(4) BMF Reason Codes for additional detail.

Trans Code	Return with good ROFT Information	Return with invalid or no ROFT	Return with an In-correct ROFT
		\$100,000+ account	-----\$1000,000 -----account
All "good" TC 650	PCC 03	PCC 11	PCC 58 PCC 54 PCC 57
All TC 670 and/or "bad" TC 650	PCC 41	PCC 43	PCC 58 PCC 55 PCC 57
Mix of TC 610, "good" 650, "bad" 650 & 670	PCC 42	PCC 44	PCC 58 PCC 56 PCC 57
- "good" TC 650 is a deposit made as required: by coupon through an authorized depository or in the case of a mandated taxpayer, a deposit made via EFT. - "bad" TC 650 is a non-EFT deposit made by mandate (taxpayer required to deposit electronically.)			

- (c) PCCs are required when manually computing or adjusting the penalty (TC 180 input with a significant dollar amount). Indicating the computation method used will continue the processing audit trail and reduce the need to request previous case files

when responding to incoming correspondence or calculating subsequent adjustments.

- (d) When resolving a SIC 2 return, if the penalty abatement (due to reasonable cause) request that came in with the return is denied, remember to enter Reason Code 62 in the first reason code position (and the appropriate PCC) and issue the taxpayer's Letter of Appeal Rights, 854C. See IRM (20)100 for more details.

(2) Penalty Reason Codes (PRC)

These codes are entered to indicate why a penalty was abated (penalty relief is granted). Notice that PRC 62 should be entered only if the penalty is being abated for one of the reasonable cause reasons. If the penalty is abated because of a reasonable cause criteria, enter RC 62 in the first position of the reason code field and the specific reasonable cause criteria code in the fourth position (ADJ 54). If penalty relief is being granted for any other reason (e.g., legislative, administrative provision) enter that specific reason code in the fourth position. The first position will be blank. IRM (20)100 and Section 8 of this document be referenced for details.

(3) Schedule Indicator Codes (SIC)

When existing conditions would prevent the computer from being able to complete systemic processing, SICs are edited onto the return during initial return processing. Masterfile's recognition of these codes generally results in the creation of an internal transcript which requires manual intervention to complete the processing of the return.

The SIC Codes applicable to FTD Penalty processing are as follows:

Sic Code	199212 & prior	199312	199412	199512 & subsequent
0	return processed with good information	return processed with good information	return processed with good information	return processed with good information
1	missing information, penalty computed by averaging available information	missing information, penalty computed by averaging available	missing information, penalty computed by averaging available information	missing information, penalty computed by averaging available information
2	Safe Harbor checked or reasonable cause claimed	reasonable cause claimed	reasonable cause claimed	reasonable cause claimed
3	Backup withholding (BWH)/Church Social Security issue	Schedule A attached (BWH)/ Church Social Security issue	Church Social Security issue	Church Social Security issue
4	1st time occurrence of 3 banking day requirement	not applicable	not applicable	not applicable
5	Schedule B attached	not applicable	not applicable	not applicable
6	\$1000,000 account	\$1000,000 account	\$1000,000 account	\$1000,000 account

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Sic Code	199212 & prior	199312	199412	199512 & subsequent
7 computer generated	not applicable	not applicable	not applicable	incomplete information, causing averaging on a \$1000,000 account

(4) Manual

Codes are required with each TC 180 input with a dollar amount. This will indicate the computation method used and eliminate the need to request previous case files when responding to incoming correspondence or calculating subsequent adjustments. See IRM 3(25)(78)0, IDRS Terminal Input, for input instructions of the PCC codes listed in (1) above.

Reason Code 62, the reasonable cause indicator, is not affected by the input of the above codes and still must be input whenever reasonable cause applies. It may be used alone (for abatements) or with any of the above codes when reasonable cause is being denied and a penalty is being manually assessed/asserted. RC 62 is entered in the first position, the applicable PCC must be entered in the fourth position.

5 FTD Credit Module

In January 1987 to address excess FTD payments received by the IRS, the FTD credit module was established. Payments placed in the credit module are systemically analyzed for proper application as subsequent tax returns are processed. Additionally, the credit module can be researched on IDRS or with master file transcripts, for possible manual application of the payment(s).

The transfer to the FTD credit module occurs automatically as a default procedure during the Rollover analysis. If the excess credit amount equals (within \$1.00) the amount of one TC650/660 (Doc. Code 97) transaction with a transaction date equal or prior to the tax period ending (minus 5 days), the TC650/660 will automatically transfer into the next subsequent account or into/establish (if the first one) the FTD Credit Module.

The module can only be established through the rollover analysis.

The FTD Credit Module can be recognized by the presence of MFT-01 and the tax period-0000, and will always be the first tax module present on the account. The presence of MFT-01 has no other meaning than to allow this module to be placed first in the record.

The module is researchable on IDRS and through MRS request.

During Rollback analysis the FTD Credit Module will be analyzed for a single unreversed TC650/660 (Doc. Code 97) equal (within \$1.00) to the excess credit claimed in the tax module being addressed. If a satisfactory credit is found a TC652/662 (reversing transaction) will post to the FTD Credit Module with the following elements from the satisfying TC650/660 transaction:

- (1) Document Locator Number (DLN) with 99 in the 9th & 10th positions
- (2) Transaction Date
- (3) Amount
- (4) Microfilm Serial Number

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A TC650/660 will also post to the gaining module with the following elements from the reversed credit module:

- (1) DLN (with 99 in the 9th & 10th positions and the correct tax class)
- (2) Transaction Date
- (3) Amount
- (4) Microfilm Serial Number of the TC650/660 being reversed in the FTD Credit Module

An AM Research Transcript will be generated every 26 cycles for the earliest transaction remaining unreversed in the FTD credit module. Refer to IRM 36(64)0.

If there are any debit modules anywhere in the taxpayers account, criteria for unpostable 305 will apply.

Questions and Answers

- Q. Is it possible to manually transfer out of the FTD Credit Module?
- A. Yes
- Q. Is there a tolerance on the amount of the deposit transferred manually out of the FTD Credit Module?
- A. Yes, in that the exact amount of the deposit transaction must be transferred. Exception: A partial transfer can be made if the transaction is to a consolidated FTD.
- Q. What will show as a history record if the credit is manually transferred to another account?
- A. The reversal transaction will appear as a TC652/662 followed by the cross reference TC586 with TIN, MFT and Tax Period.
- Q. Can a refund be generated or manually issued from the FTD Credit Module?
- A. No. The amount must be transferred out and then refunded.
- Q. Can a return ever post to this module?
- A. No. A return cannot post to this tax module; it is a storage module.
- Q. What will address this credit module?
- A. The module will be created through the rollover analysis and can be transferred during rollback analysis or through a manual transfer.
- Q. Will there ever be a time when the FTD credit module will be in zero balance?
- A. Yes, this is possible if all the deposits in the FTD credit module are transferred out, either automatically or manually.
- Q. Is the format of the FTD Credit Module different than the tax module?
- A. No, the format is essentially the same.